Wealthy charities are most generous to themselves

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FINAL

Today's debate: Charitable foundations

Our view: Lax rules and spotty policing result in high overhead, meager giving.

San Francisco's Irvine Foundation is dedicated to improving the quality of life for Californians. But last month, the **San Jose Mercury News** revealed that the foundation had improved life for one individual in particular: a previous president. He got $717,000 in pay, retirement and perks.

Ditto for Dallas' Carl B. and Florence E. King Foundation, dedicated to arts, education and community betterment. Last year, Texas authorities sued former foundation officials, claiming they had spent $2.6 million on salaries and expenses in 2000 -- twice what the foundation gave to **charity**.

Profligate spending may not be the rule for charitable foundations, institutions founded by wealthy individuals to fund good causes -- and take advantage of hefty tax breaks. But recent disclosures about the lavish habits of a few foundations have turned up a more common, and perfectly legal, scandal: the small portion of their assets that foundations actually give to **charity**.

Under federal law, private foundations must donate a mere 5% of their assets each year to remain exempt from virtually all federal and state income taxes.

But even that modest requirement is undercut by rules that let foundations count administrative expenses, such as rent and salaries, as part of the 5%. And some foundations spend generously on expenses, according to foundation watchdogs. In 2001, for instance, the Robert Wood Johnson Foundation, worth $8.15 billion, distributed $390 million -- just 4.8% of its assets. Of that, $91 million was spent on administration.

Clearly, the law lets foundations betray the spirit of their mission. While funding charities on the cheap, they can claim huge tax breaks and spend freely on salaries and other perks. Some common abuses:

* Meager giving. The 5% provision was meant to be a floor on giving, but many foundations use it as a ceiling. In 1997, average foundation giving, including expenses and overhead, was 4.7% for 26 big foundations worth $1 billion or more, according to a study by the Internal Revenue Service. (Foundations can use a five-year average to meet the 5%-giving rule.)

* High overhead. In 2001, $4.3 billion -- about 16% -- of total foundation spending went to overhead, according to the National Committee for Responsive Philanthropy (NCRP), a watchdog group. That year, the nation's 64,000 foundations, worth about $371 billion, gave only $23 billion to **charity**.

* Lavish salaries. Among the 20 wealthiest private foundations, 12 CEOs were paid more than $400,000 each in 2001, even as the value of investments dipped, according to a survey by The Chronicle of Philanthropy.

The foundations' high expenses have prompted Reps. Roy **Blunt**, R- Mo., and Harold Ford Jr., D-Tenn., to push legislation that would require foundations to give a full 5% to **charity** annually, excluding expenses.

That, together with closer monitoring of foundations, could help curb lavish spending. The IRS and state attorneys general have the authority to police foundations, but they have used their powers sparingly. In 2002, the IRS audited only 120 private foundations, fewer than one in 500, according to the Council on Foundations, a trade group.

The council says it would welcome more government oversight. But it argues that increasing the 5%-donation requirement would deplete many foundations' assets and force them to close.

A 1999 study commissioned by the council suggests otherwise. It concluded that foundations could have donated 6.5% a year from 1950 through 1998 while still adding substantially to their assets because of high returns on investments.

Unless foundations are willing to focus more attention on funding charitable works than building wealth, they don't deserve the tax breaks they receive in exchange for serving the public good.

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Frugal contributions

Examples of donations, after expenses in 2001 by some of the wealthiest foundations (1):

Robert Wood Johnson Foundation

Charitable giving: $271 million

Donations as % of assets: 3.3%

W.K. Kellogg Foundation and Trust

Charitable giving: $179 million

Donations as % of assets: 3.9% (2)

John D. and Catherine T. MacArthur Founation

Charitable giving: $168 million

Donations as % of assets: 4.1%

James Irvine Founation

Charitable giving: $59 million

Donations as % of assets: 4.1%

Ewing Marion Kauffman Founation

Charitable giving: $91 million

Donations as % of assets: 4.2% (2)

Andrew W. Mellon Foundation

Charitable giving: $182

Donations as % of assets: 4.3%

1 - Excludes activities conducted on behalf of a **charity**

2 - Fiscal year 2000-2001

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GRAPHIC, B/W, Sam Ward, USA TODAY, Source: National Committe for Responsive Philanthropy from Internal Revenue Service data (CHART)